IT'S NOT OVER BY A LONG SHOT

When one spreads out all the statistics on the table, the picture, painted of the US economy, today, must be considered very frightening.

One is led to the inevitable conclusion that all the kings horses and all the kings men will not be able to put the US economy back on course again without some pretty fancy financial footwork.

And that will not happen on a heartbeat.

One positive factor in all this mess, however, is that inflation is no longer a concern of politicians and monetarists, either in the US or anywhere else, for that matter.

In times of war, one sees galloping inflation take hold of an economy (look at Germany by the end of the 2 Great World Wars), but, in contrast to historical precedence, inflation appears to be receding in the US, if anything.

This will, most likely, mean that the US Federal Reserve Board will continue to lowest short-term interest rates in the hope that, it will, eventually, seduce manufacturers and consumers to make fresh commitments.

That is presupposing, of course, that there are no further supply shocks and/or horrendous acts of terrorism in the US by whomever.

It is likely that interest rates in the US could drop back to the 1961 level of 1.50 percent before the present situation improves.

The economies of the 3 largest industrialised countries of the world, today – the US, Germany and Japan – are all in decline, and, these economies will continue on that slippery slope until the middle of 2002, by all present appearances, based on evidence at hand.

An aspect of the September 11 attack on New York and Washington D.C. by Muslim extremists was a commitment in US of policymakers, both financial and fiscal, to work together toward common national goals.

Prior to September 11, Congress was, from time to time, at odds with the loyal opposition. That is, clearly, not the case, today.

Now, the petty concerns of politicians of yesterday have been put on the back burner in order to try to find solutions to the biggest problems of the day: How to fight international terrorism; and, how to lead the US out of this recession?

International uncertainty and a decided loss of wealth have resulted in private demand, drying up in a hurry in the industrialised world.

The major international downturn in capital spending and reduced exports are fueling unemployment fires, globally.

It seems improbable that capital spending will, suddenly, pick up because there is a consensus that interest rates will fall further – which is almost a certainty – and that, as a result, capital goods will become cheaper – which is, also, almost a certainty.

In the meantime, retrenching, both of businesses and consumers, is seen on a very wide front.

Asia will feel the pinch more than Euroland and the North America of the retrenchment because Asia *'feeds'* North America and the European Union with consumables, as well as being a cheaper area than North America for the manufacture of products, from computers and computer parts, to refrigerators to automotive accessories.

The export shock on territories, such as Singapore, the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), the PRC, proper, Thailand, Malaysia, etc, will be felt in very short order – and violently, too.

Singapore and the HKSAR are, already, in recession, as has been made only too painfully aware by trade statistics, and quarter after quarter of negative economic contractions.

Industrial commodity prices are falling, having hit 1986 levels: They are likely to fall to lower levels, too, because they have no other direction to follow, at this time and under the present circumstances.

The oil-producing countries of the Middle East are, also, painfully aware of this eventuality – and the rude awakening for oil-producers must be frightening, considering that a war is raging on their doorsteps.

The rapidly increasing jobless rate in the US is becoming more and more of a burden on Government; it is coupled with reduced industrial production.

Just last Friday, the National Association of Purchasing Management (NAPM) said that manufacturing activity in the US had fallen to its lowest level since 1990.

And there was no indication of a letup, the NAPM was quick to add.

The October fall in the NAPM Index was the largest, single month's decline since at least 1931 when such data was, first, collected.

There is a good chance that the US recession will lead to a depression – which has not haunted the US since the Great Depression of 1929.

Unemployment in the US is shocking just about everybody, from top-drawer economists to the pastor of the local church.

Last week's statistics, indicating that the October figures of US workers, having hit the streets, is the largest single month of sackings in the past 2 decades.

According to The US Labour Department, nonfarm businesses cut payrolls by about 415,000 jobs in October. That was the largest single month's cut since May 1980.

The US unemployment rate, today, stands at about 5.40 percent.

The rapid increases in the number of people, out of work in the largest economy of the world, today, coupled with falling capacity utilisation must suggest that the Consumer Price Index (CPI) will drop in the next half year, at least, as will attendant CPI inflation.

The average workweek is falling in most industrialised countries and, in the US, it has hit 34 hours.

This is the lowest level in the past 15 years.

The plunge in manufacturing payrolls continues, unabated, for the fifteenth consecutive month.

And the worst is yet to come.

All this and a lot more will affect business sentiment in the coming weeks, and those pundits, who would have us believe that the worst is behind us, may well have to eat their words, long before Santa Claus drops in.

Assuming, of course, that there still is a Santa Claus because he may be having trouble, finding sufficient money to feed his reindeer … when he can find grain, that is.

-- E N D --

While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.